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ECONOMIC FEATURES OF SOVIET CENTRALIZED PLANNING

I. Allocation of resources--what to produce.

A. In a market economy (US) the problem of how to distribute resources among competing uses is ultimately decided by the impersonal actions of innumerable consumers. This phenomenon is termed consumer sovereignty by economists.

B. In the Soviet economy the resource allocation problem is decided in large part by the action of the central planning authority. So, production decisions in the USSR are guided by planners' sovereignty. However, some degree of consumer sovereignty may still be said to prevail.

C. The decision as to the proportion of resources to be invested rather than consumed within the given time period follows directly from the planners' production decisions, while in the market economy it is conditioned by the individual choices of consumers.

D. In the market economy competing users of scarce resources cast their "votes" through the price system.

E. Although prices do not explicitly enter into the Soviet planning process, no other basis exists for making relative judgements as to alternative production decisions. Even though the planners may state their goals in physical terms, they must choose between goals and decide upon the size of each goal in terms of some common denominator, i.e., prices. The prices are of course, influenced by their preferences but still serve the purpose indicated above.

II. Production organization--how to produce.

A. In a market economy a producer attempts to maximize his monetary return. He is given the prices of his production factors (inputs) and the prices at which he can sell varying quantities of output. He is free to vary inputs on the basis of technological or economic factors, and his output on the basis of consumer demands.

B. The Soviet producer (plant director) has a different set of goals and restrictions. His primary goals is to fulfill the physical plan and the secondary one is to maximize his monetary return (profits). He is allocated the most vital material production factors by the planning authority. However, this allocation is in the form of a "hunting license" which merely permits the plant director to purchase the materials; it does not physically transfer the resources to him. Imperfections of the allocation system often mean he has to compete against other authorized recipients for a "short" supply by paying a premium; hence pricing enters in. All labor and some materials

are not allocated centrally, but must be hired at the going price or wage rate.

C. The Soviet producer is also given product utilization norms, which are really maximum limits of use of certain inputs per unit of output. Within these limits, the plant manager can vary his input combinations. The manager must abide by the output directives handed down from above. These instructions are broad enough in nature to permit the director to be selective about his output mix, both as to quantities and varieties.

D. Though his area of choice is narrower than that of his capitalist counterpart, the Soviet plant manager still has considerable leeway. Within this margin of mobility, he thinks in much the same terms as his free economy equivalent, i.e., monetary costs and incomes.

III. Exchange--How to distribute the product.

A. In a market economy in peacetime, products are sold to consumers at prices which clear the market, i.e., no shortages or excessive inventory accumulations. Changes in consumer preferences are reflected in initial price changes and after a period of time take the form of supply adjustments. The latter adjustment is evidence of the prevalence of consumer sovereignty, i.e., production decisions are ultimately based on consumer preferences.

B. In the Soviet economy at present, capital goods are allocated by administrative fiat. Their prices reflect their relative scarcities but do not actively influence their distribution among consumers. Consumer goods, however, are sold at prices which will clear the market. In former years consumer goods prices were set at less than equilibrium levels, leading to rationing on a large scale. Changes in consumer demand are generally reflected in price changes with no supply adjustments. Therefore, <u>consumer sovereignty</u> does not prevail. However, consumer choice does exist; i.e., the consumer is free to spend his income any way he pleases on goods available for sale.

C. Consumer sovereignty may prevail in the USSR to a limited extent. Within the total proportion of resources alloted to consumption by the planning authority a margin may exist within which consumer pressures may be influential in determining the composition of output. Statements appearing in the Soviet press lend support to this view.

IV. Income Distribution

A. In a market economy all human factors of production are compensated according to their contribution to the productive effort. The same supply and demand (pricing) stipulations previously applied to material commodities also pertain to human factors.

B. In the Soviet economy attempts have been made to allocate labor in the same manner as materials by directing new workers by conscription

into various industries and by keeping them there by restrictions on mobility. However, this scheme has not been rigidly enforced. A system of differential wage rates exists, indicating that monetary incentives must be used to entice workers into a particular occupation.

C. Studies by academic scholars have shown that the pattern of income distribution in the USSR are similar to that in the US, if investment incomes are excepted.

V. The Monetary System and Price Levels

A. In a market economy, the quantity of money (money supply) is controlled by the banking system, but can be strongly influenced by actions of the government. Changes in price levels occur when the money supply and/or savings habits of consumers change in different proportion from changes in the output of goods and services.

B. In the Soviet economy monetary creation is entirely under state control. However, the effects of changes in the supply of money, particularly through credit creation, are the same as in a market economy. In the past unrestrained credit creation has led to severe inflation.

VI. The Fiscal System

A. In a market economy fiscal devices (taxes and public debt) are used to enable a government to finance its activities in as non-inflationary or deflationary manner as possible. The fiscal system is not employed to intentionally affect relative prices except in the case of excise taxes (e.g., taxes on liquor and cigarettes). It can be used as a device for maintaining price level stability, i.e., counteract inflation and deflation.

B. In the Soviet economy the fiscal system is also used to finance governmental activities in a manner which will maintain price level stability. Since the public sector of the economy is much larger than in a market economy, government fiscal operations are more sweeping in their effects. Unlike a market economy, the Soviets intend deliberately to affect relative prices of consumer goods through the turnover tax. They also employ the fiscal system to induce consumers to "save" that portion of their incomes which the state wishes to use for non-consumption purposes (investment plus defense). If the government did not tax away this amount from consumers, prices of consumer goods would be bid up by these "excess" incomes (inflation).

VII. International Trade

A. A market economy will engage in foreign trade if its material welfare can be enhanced, i.e., if total goods and services

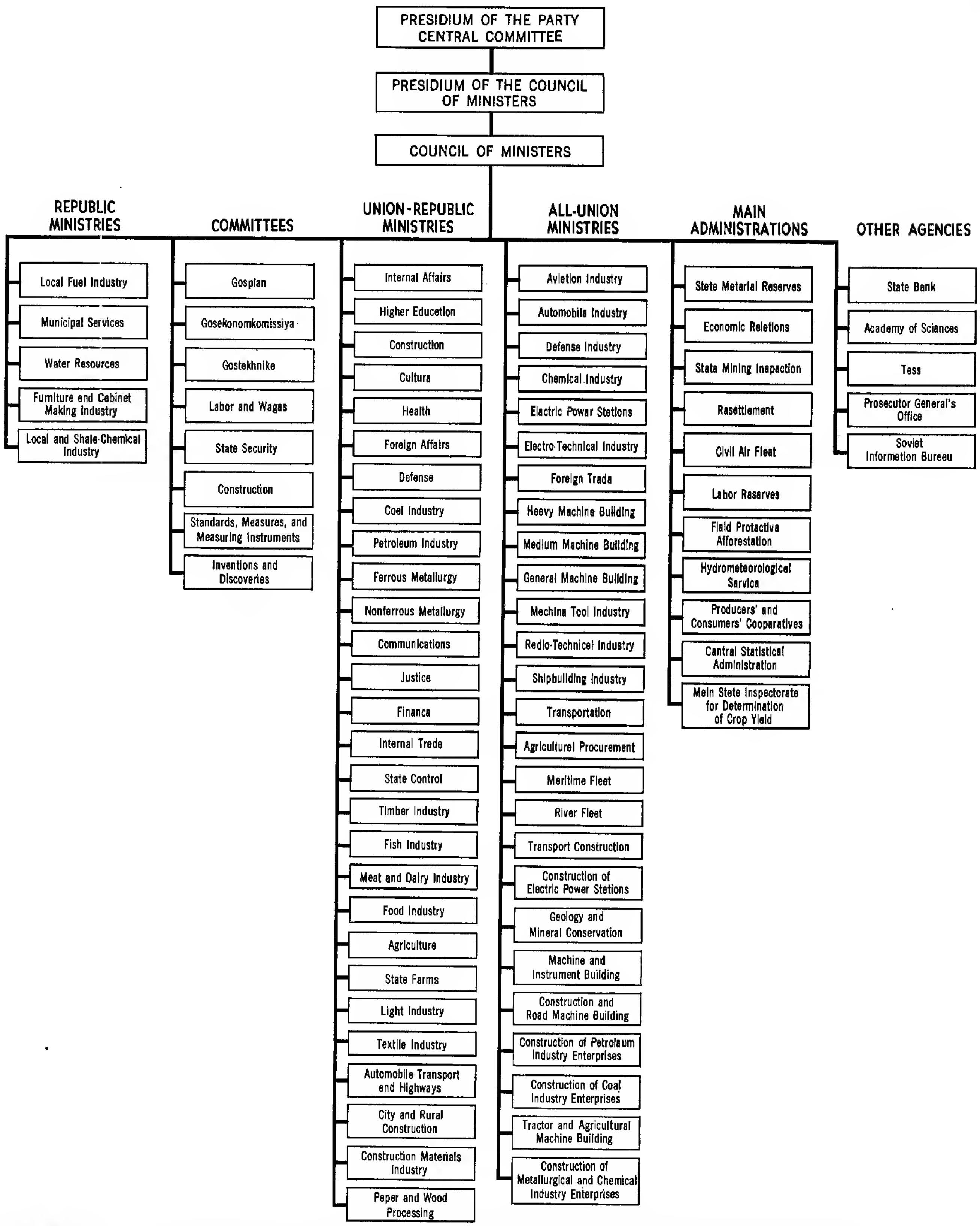
available through foreign trade are greater than if all were produced domestically.

B. The same criterion would apply to the Soviet economy if purely economic interests were paramount. However, for political and strategic reasons the Soviets have favored a policy of selective autarky self-sufficiency, except where trade promotes political ends.

Comparative Summary

FUNCTION	MARKET ECONOMY	SOVIET ECONOMY
I	Consumer Sovereignty Allocation by price	Planner sovereignty Allocation by fiat
II	Vary inputs and outputs according to prices	Quantities of inputs and outputs mainly ffixed by administrative fiat
III	Short-run adjustment by price changer; long-run by supply adjustments	Short-run adjustment for consumer goods by price changer; long-run by planner fiat No adjustment for producer goods except by planner fiat
IV	Labor allocated in same manner as commodities	Allocation of labor by both monetary incentive and administrative direction
V	Money created by banking system, but controlled by government	Money created and controlled by government
VI	Fiscal system finances government; maintains price level stability, does not usually affect relative prices	Fiscal system finances government, maintains price level stability, and consciously affects relative prices
VII	Foreign trade used to increase total availability of goods and services	Foreign trade subordinated to self sufficiency, unless political ends served

ECONOMIC INSTITUTIONAL STRUCTURE OF THE SOVIET STATE



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